



Cooperative Agreement 690-A-00-05-00077-00

**Quarterly Report
October to December 2005**

Cooperative League of USA (CLUSA) International Development Enterprises (IDE) Emerging Markets Group (EMG)



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ADMINISTRATIVE DATA

| | |
|-------------------------------|------------------------------------|
| Country | Zambia |
| Project Title | Production, Finance and Technology |
| Cooperative Agreement No | 690-A-00-05-00077-00 |
| Implementing Agency | NCBA/CLUSA |
| USAID Technical Office | SO5/Dann Griffiths |
| Date of Last Evaluation/Audit | N/A |
| Date of Next Evaluation/Audit | N/A |

FINANCIAL DATA

| | |
|--------------------------------------|--------------------|
| Date of Authorization | April 1st 2005 |
| MAARD Number | 6110005.01-3-04073 |
| Total Estimated Amount | \$15,549,830 |
| Total Federal Funds Authorization | \$2,950,000 |
| Appropriation | 72 – 19X1030 |
| BPC | GGAX-05-21611-1G13 |
| Outlays this Quarter | \$531,614.26 |
| Total Outlays to date | \$1,359,662.19 |
| Unobligated balance of Federal Funds | \$1,590,337.81 |

PROGRAMME OVERVIEW

During the final quarter of 2005, the activities of PROFIT centred on consolidating the information obtained during the previous quarter in the extensive market scanning exercise undertaken both at national and local levels and from that, defining the priority areas for programme interventions. Initial activities in the priority sectors were undertaken with a positive response from clients that has exceeded expectations at this early stage of the programme. Following the final approval of the PROFIT Year One Workplan and Grants Manual in November, the first priority grant proposals were assessed with a view to signing contracts early in 2006.

Overview of Achievements:

- Final approval was granted from USAID for the PROFIT Year One Workplan and Grants Manual
- Confidence among PROFIT staff in the methodologies and modalities of market facilitation increased and is bearing fruit in terms of field activities.
- Initial field activities in the livestock sector linking beef producers to commercial vets were designed and implemented.
- Discussions were held with various players in the input supply sector to design PROFIT's interventions, and initial activities in the sector were undertaken.
- A consultancy was undertaken in conjunction with Freshpikt, a food processing company under development, to determine the feasibility of establishing a pineapple production system and supply chain in North Western Province linked to an export processing market.
- The consultancy initiated in September to compile an inventory of Community Based Tourism activities in Zambia and to determine where in that sector PROFIT intervention would be most valuable was completed. Its mandate was extended, on the request of the commercial tourism sector to provide recommendations for the future development of the industry as it pertains to community involvement.
- A team from USAID/Washington were involved in designing an impact assessment study for PROFIT which will contribute to the PROFIT Monitoring and Evaluation Plan.
- A consultancy was undertaken to assess the financial services industry as it relates to industries selected by PROFIT and to identify financial products currently available to the commercial agricultural sector that could be rolled out to a wider rural customer base over time with PROFIT assistance.
- A grant to Conservation Farming Unit for training farmers within the Dunavant cotton production network was designed and finalised with a view to signing in early 2006 so as to have an impact during the current agricultural season.

Overview of Challenges:

- There were no major activities undertaken by CHAMP in their implementation of PROFIT's Emergency Plan HIV/AIDS sensitisation programme due to delays in the obligation of PEPFAR funding which has caused major disruption to the planned activities
- A 30% strengthening of the kwacha over the quarter required some major changes to PROFIT operations to mitigate the pressures exerted on the programme budget, and also seriously affected the operations of PROFIT's partners in the export sector.

PROGRAMME MANAGEMENT AND ADMINISTRATION

OVERVIEW

With the major logistical activities involved in establishing staff and offices in the regions and an operational management hub in Lusaka all but completed in the last quarter, the Administration Department was involved in the consolidation of the financial reporting systems and programme policies and procedures, and the completion of the procurement process. The Monitoring and Evaluation Department was involved in the evaluation of the programme by a two member team from EGAT/Washington to develop an impact assessment.

CHALLENGES

- A 30% appreciation of the kwacha led to a major restructuring of the PROFIT kwacha-related budget

ACTIVITIES PLANNED FOR NEXT QUARTER

- The PROFIT Monitoring and Evaluation Plan will be finalised during the next quarter
- There will be a second visit by the Impact Assessment Team from EGAT/Washington late in the quarter to finalise plans for the baseline survey designed to take place during April
- Office accommodation will be sourced in Chipata for the Eastern Province team to move into in March/April

THE COTTON INDUSTRY

OVERVIEW

Specific activities related to cotton will only begin once the PROFIT grant to the Conservation Farming Unit is finalised and the organisation begins its on-time large scale upgrading of the production management skills of cotton farmers based on sustainable farming practises. The CFU will train farmers in productivity enhancing farming practises for the entire cropping regime, with cotton as the main commercial crop. The trainings will be focused on lead farmers, who will develop demonstration plots and conduct field days for their 'constituents'. The grant was finalised at the end of the year and activities will commence with the signing of the contract in January.

Indirect interventions in the cotton industry are related to the development of the input and service delivery sector and are addressed in the section on the rural services sector.

Challenges

- The 30% appreciation of the kwacha has caused serious disruption to the cotton sector. The sector's two largest firms, Dunavant and Clark, both fix a pre-planting price at which they will buy seed cotton. Dunavant exports 96% of its production, at US dollar prices, and with the prospect of raw material costing 30% more in dollar terms, the company had no option but to issue a cautionary warning to farmers that it will not be possible to pay the announced price of K1,220 per kg of seed cotton and 'floated' their purchase price. It offered to refund the price of the seed for farmers wishing to abandon their cotton crop, an offer that few farmers took up. The ultimate losers in such a scenario are the small farmers for whom input costs and living costs have not fallen by a corresponding percentage.

In this light, it is more essential than ever that the cotton farmers are provided with the technical knowledge with which to increase yields to cushion the effects of a fall in price.

Activities Planned for Next Quarter

- The start of the CFU farmer up-grading programme in Monze and Choma Districts.
- Work with Dunavant on coordinating their YIELD programme with that of CFU/PROFIT

THE LIVESTOCK INDUSTRY

OVERVIEW

The quarter started with a continuation of a process leading PROFIT to focus its livestock efforts on the red meat industry. The previous quarter's poultry study led the PROFIT management team to decide to not to intervene in this sector as the returns to USAID with regards to industry growth would be limited. The beef industry, however, engages over 230,000 households across all provinces in Zambia (CSO 200 Census of Population and Housing) and is characterised by major inefficiencies in the input and output relationships. The public veterinary structure is weak and, in some districts almost non existent, and its withdrawal from the market for anything but a reactive response to major disease outbreaks has left a vacuum currently inadequately filled by the private sector. The lack of private vet services also minimizes the "push" incentives in the marketplace that are critical to increased innovation, adoption rates and ultimately adoption rates at the farm level. Also, output marketing is characterised by a lack of transparency and clear market structures.

The PROFIT beef industry activities fell into four major areas during the quarter: 1) promoting private vet services; 2) improving market transparency and linkages; 3) financial services; and 4) and forming a livestock team based on knowledge management techniques.

ACTIVITIES

1) Promotion of private veterinary services. PROFIT's assumption is that the aggregation of demand for vet services through the organisation of the smallholder cattle community will lead to an increase in accessibility and efficiency on the part of the service provider and a corresponding decrease in the per animal cost of preventative care for the farmer. The programme solicits interest from the fledgling commercial vet sector on the provision that the programme will assist the vet to develop a business plan around servicing smallholder cattle. During the quarter a total of eight commercial vets were identified as being interested in expanding their business through greater interaction with the smallholder sector and of the eight vets, two of them produced initial herd health plans which will form the foundation for contractual relationships with their respective communities. The current structure of vet care services in regions where livestock is traditionally an important economic sector, where there is a level of grass-roots basic care givers or community livestock workers, makes the expansion of the model more viable than areas where this capacity is lacking.

The development of the herd health plans triggered nine initial community assessments -- three in Mkushi, three in Mongu, and six scattered around the Southern region (Monze, Choma, Namwala, and Kalomo). The initial assessments concluded that there are highly favourable market characteristics for establishing private veterinary contracts with communities. There is a clear and demonstrable

demand for proactive vet services among livestock owners and a willingness to pay for them.

The next steps will include working with the vets and communities to assure both parties fully understand their responsibilities and that all funding transactions (internal to the community) and between the community and vet have clear paper trails. PROFIT will also work directly with the communities to assure they have the bookkeeping skills to properly account for all jointly held funds. It is expected that between three to five contracts could be signed during the next quarter.

| VET | DISTRICT | CHARACTERISTICS | PROGRESS TO DATE |
|----------------------|----------|--|--|
| Dr. Siame | Monze | Private Vet | Working on herd health plan Five communities identified as potential clients |
| Dr. Nyimba | Monze | Public/Private Vet Vet Drug Sales Employs Vet Assistant | Working on herd health plan |
| Dr. Munkombwe | Monze | Private Vet Vet Drug Sales (affiliated to Twiga Chemicals Ltd) Employs Vet Assistant | Completed herd plan Three communities identified as potential clients |
| Dr Parsons | Mazabuka | Public/Private Vet Employs Vet Assistant | Working on herd health plan Two communities identified as potential clients |
| Dr. Banda | Mongu | Public/Private Vet Engages Community Livestock Workers | Working on herd health plan Target communities assessed and two identified |
| Dr. Maseke | Namwala | Public/Private Vet Engages Community Livestock Workers | Working on herd health plan Three communities identified as potential clients |
| Agro-Support | Kalomo | Private Vet in association with feedlot | Working on herd health plan Assessing market |
| Dr Cantley | Mkushi | Private Vet | Completed herd plan Target communities assessed Selected two communities for pilot |

2) Improving market transparency and linkages. Initial discussions were held with ZNFU on establishing auctions and fee for service scales to improve local sales practices. Evidence points to the fact that smallholder cattle farmers and traders will travel long and expensive distances to sell cattle into a system that provides some form of transparency. ZNFU is very interested and has identified potential pilot sites for an auction service.

Discussions were also held with Zambeef Ltd on improving and extending their grades and standards pricing mechanism currently in use in Namwala. Discussions were also held with the company in Mongu around piloting a modified grades and standards

mechanism as a means to incentivise better herd management practices. It is expected that PROFIT and Zambeef will finalise some understanding during the following quarter.

PROFIT also identified a commercial feed lot under development in Kalomo that is interested in piloting a modified out-grower scheme based on a South African model. Through this model, small holders could limit market risk while establishing a solid income earning potential through the contracted production of steers for the feedlot. This model could also demonstrate a path through which small holders can contribute and benefit from the evolution of the Zambian red meat industry into a more internally competitive industry.

3) Finance. The third set of activities related to connecting small holders into the banking sector to minimize market risk. An initial assessment was conducted to determine the willingness and potential benefits of piloting a targeted school-fee savings product that could limit the need to sell-off cattle at the time school fees are due. The assessment indicated that such a savings product could be useful in managing market risk and sellable to smallholders.

Insurance products were also determined to be a potentially useful financial product for small holders and easily adaptable in conjunction with the vet payment mechanism. The majority of herd insurance products on the market actually require a herd health plan and veterinary cover.

4) Development of a livestock team. This set of activities was based on developing a knowledge management based process for participatory management and monitoring of red meat industry activities. Draft intervention guidelines and a group tracking tool were developed and will be adopted via an industry team meeting held in the early part of the next quarter.

CHALLENGES

- Outside the commercial farming areas, rural private vet care has been confused by the role of government and its perceived place in the market. For example, here are still drugs (mainly vaccines against contagious disease) that are mandated exclusively for use by government vets, and also, government vets often operate in a quasi-private manner distorting the market for true private vets.
- Even in areas with large numbers of cattle such as Western Province, there is often a lack of vets with the commercial capacity or will to expand and develop their business.
- There is almost no precedent for the vet service delivery systems being piloted under the PROFIT programme, making learning a key component of the process.

- There is currently little networking and information sharing among commercial vets in the rural areas making the transfer of success and progress slow.

ACTIVITIES PLANNED FOR NEXT QUARTER

- Work with the vets in the programme to develop and implement contracts with their smallholder clients.
- Work with the target communities to fully understand their responsibilities and to develop suitable group payment mechanisms.
- Continue to scan the market for other vets keen to develop business plans around smallholder cattle and work with them to organise and structure the demand for their services
- Work with ZNFU on the development of a pilot auction system in Southern Province.
- Continue to work with the commercial feedlot in Kalomo to develop a contractual relationship with producers linked to the provision of vet services.
- Develop a Memorandum of Understanding with Zambeef around expanding their grades and standards based payment mechanism into smallholder cattle areas.

THE RURAL SERVICES INDUSTRY

OVERVIEW

During the quarter, PROFIT developed the assumption that the rural services sector is of sufficient importance to be seen as a specific industry for which PROFIT intervention could yield significant returns.

In a similar fashion to the delivery of vet services, the agricultural input market has been distorted over the years by the actions of government which plays a sporadic and often confusing role in the market place, particularly in relation to the provision of subsidised fertiliser, which has crowded out possible private sector involvement.

The ability of the smallholder agricultural sector to grow is severely limited by the poor, disconnected, and highly inefficient delivery of inputs and services. Access to inputs is as large a constraint as affordability, but the limited and inefficient retail network also makes the delivery of technology and quality inputs very expensive. A poor input network also creates a substantial systemic industry weakness in that small-holder access and incentives to adopt new knowledge, skills and technological innovations will be limited. It is also commonly acknowledged that input suppliers with knowledge of their products provide an excellent source of embedded extension services to farmers which have the potential to be very important in isolated rural areas, particularly in relation to the absence of effective public extension services.

The key constraints to extending and making more efficient the retail network of input providers include:

- inefficient and poorly formed links between suppliers, wholesalers, retailers, and rural agents;
- disconnect between the types, sizes, and appropriateness of products and small-holder requirements;
- limited access to financial models, payments mechanisms, and services to deal with cash poor farming communities; and
- Limited linkages between input networks and small-holder market opportunities

PROFIT is developing a strategy for intervention that will directly address these constraints through a combination of activities that facilitate the extension of retail input networks by improving linkages from suppliers to wholesalers to retailers to farmers, piloting new business models for network expansion, piloting new service and product delivery mechanisms, testing new marketing tactics for smallholders, piloting new financial mechanisms, and linking input providers to output agents and farmers.

ACTIVITIES

The retail inputs activities for the quarter can be broken down into three sets of activities. 1) The expansion of retail distribution networks further into more rural and poor agricultural communities. 2) Focusing on promoting specific product and service lines through the developing retail network and 3) the development of an PROFIT industry team developing skill sets among key staff members responsible for the implementation of these interventions.

1) The expansion of retail distribution networks. These activities can be divided into two subsets, namely the expansion of local retailers into areas currently not serviced by commercial suppliers, and the expansion to district and sub-district level of some of the national, Lusaka based input companies. While a large number of such entities have expressed an initial interest, the local retail outlets that will form the initial pilot interventions are based in Choma, Mkushi and Solwezi. The outlets all identified some initial communities in which to assess expansion possibilities and the first assessments were held and determined that there is substantial potential for expansion given a low-cost/low risk strategy such as agents or a modified franchise strategy is used.

Discussions were also held with Seedco, Cropserve and Syngenta about assisting them to develop agencies or franchises in regions currently not covered by their networks with the specific intention to combine the delivery of inputs with extension through product promotion.

2) The promotion of specific technologies and services

The programme is also working with input suppliers to increase local access to specific agricultural productivity enhancing technologies. The 'Zamwipe' or weed wipe through which selective post emergent herbicides are applied to a crop, for example, has been proven to significantly increase the capacity of a farmer to weed large areas of crop, and has a greater efficacy than hand weeding. Initially, a promotional plan was developed for the Zamwipe in conjunction with specific retail outlets, commercial agri-business firms, and the suppliers to push its commercial value. It was also determined that it would be important to have the campaign fronted by local retail and national retail outlets that are closely linked to the suppliers. The campaign will include demos, discount coupons, and some direct and co-advertising efforts and will be launched the beginning of the next quarter. Irrigation and spraying equipment were also identified as having commercial potential given a private sector driven promotional campaign and efforts to promote access to these technologies through the retail sector will commence next quarter

Two rural services, currently under-developed or utilised only as part of a social as opposed to commercial network were determined to be key to the increase in productivity among smallholders and critical to an increased smallholder contribution to and benefits from commercial agricultural value chains. Spraying and tillage services delivered directly through retail outlets or local entrepreneurs linked to retail outlets were determined to be the most effective way to promote these services. Lead retail outlets and potential local entrepreneurs to deliver the services were identified and discussions were held to lay out specific steps to organising and launching the services via pilots in Mkushi, Choma, and Monze. Suppliers of cheap tractors and hand held tractors in Lusaka were identified and approached to assess their willingness to develop their supply chains to potential tillage service providers.

| INPUT SUPPLIER | DISTRICT | CHARACTERISTICS | PROGRESS TO DATE |
|--------------------------|----------|--|---|
| Dawako | Solwezi | Major outlet for agricultural inputs and veterinary products | Identified four potential agents in different areas of Solwezi District Also interested in providing tillage services from the decentralised outlets. |
| Cropserve Choma | Choma | Local agency of Cropserve with focus on smallholder market | Identified four areas where agencies would have potential. Discussions held in relation to the development of field days combined with demonstrations and product promotions as part of a 'mobile' marketing strategy. |
| Landserve | Mkushi | Independent Input Supplier Commercial focus but increasingly aligning to smallholder market | Discussions held in relation to the expansion of the business into high potential areas of Mkushi District. Areas and possible agents identified Also working with a paprika outgrower company as a third party input supplier tied to a guaranteed output market |
| Cropserve | National | Seed and chemical supplier with large regional footprint and smallholder focus | Discussion held in relation to assistance to expand network into Eastern Province through agents Discussions held in relation to the promotion of productivity enhancing products such as herbicides |
| Seedco | National | Largest seed supplier in Zambia with 40% market share and wide national presence | Discussions held in relation to the development of a 'bottom tier' of agencies at sub-district level to promote access to hybrid seed |
| Syngenta | National | Supplier of a variety of 'green label' agricultural chemicals | Discussions held in relation to the development of a franchise system for rural retailers providing inventory credit and retail training to the franchisee and extension services to the farmer clients |
| Precision Farming | Mkushi | Agricultural machinery sales Commercial agricultural contractor | Discussions held in relation to the development of a fee-for-service mechanical tillage service to high potential smallholder communities |

3) Development of an input supply team The third set of activities included drafting intervention guidelines and a tracking tool for the retail input team. The first meeting of the retail input team will be held early in the next quarter during which time the team will finalize the guidelines and up-date the tracker.

CHALLENGES

- The involvement of government in the input supply sector creates a distortionary layer of expectations among smallholders. While only 25% of farmers access subsidised inputs, among a much higher proportion of farmers

there is reluctance to invest in expensive fertiliser through the private sector while the expectation of cheap fertiliser exists. PROFIT will initially not encourage the development of fertiliser supply chains leading to small rural agents as the risk of failure is high. Rather the programme will focus on seeds and chemicals, both of which do not carry the same set of expectations and distortions, to demonstrate the ability of the private sector to deliver these inputs as part of a case made for the reduction in government involvement in the input supply sector.

- The lack of credit history among potential rural agents and franchisees is a limiting factor in initiating transactions, and PROFIT will need to address this issue through the provision of some form of temporary partial credit guarantee

ACTIVITIES PLANNED FOR NEXT QUARTER

- Work with input suppliers in Southern Province to promote the use of the Zamwipi and herbicides in crop production.
- Work with input suppliers in the Copperbelt and Livingstone areas to develop the irrigation supply chain, tied in to horticultural production systems.
- Work with suppliers of cheap hand held tractors in Lusaka to extend their supply chains to rural areas with the view to promoting tillage services tied to minimum tillage systems.
- Development of a guarantee fund to reduce the initial risk of transactions between the commercial and small retail sectors.

THE NON TIMBER FOREST PRODUCT INDUSTRY

OVERVIEW

For the honey industry to continue to grow and meet its commercial potential the industry will have to overcome two current constraints. The first constraint is that the value chain has not been able to meet even basic efficiency requirements, which can be defined by limited production yields (e.g., bee keepers are producing at about 25% of where they should be). The second is that further differentiation is required to assure sustained growth over time, which would require a combination of increased quality, niche market certifications (e.g., organic, fair trade, etc.), and/or new market niches in cosmetics and health care. Current production has to compete with similar, differentiated quality honey that is being produced more efficiently on a much larger scale in a range of countries. For example the Mexican organic honey industry is dominated by small producers using highly developed, highly productive hive systems giving an excellent quality product, whereas the Zambian industry is defined by basic bark hives, each giving an average of 8kg of honey of variable quality as opposed to their Mexican competition where the hives give an average of 40kg each.

The inability to even meet basic efficiencies is clearly the most critical threat. If producers cannot achieve a basic level of productivity, differentiation will not make sense as even highly differentiated honey products require some cost competitiveness. As a result, PROFIT is first focusing on productivity using a similar embedded service delivery approach used in its cotton upgrading strategy where the majority of capacity building services will flow from the lead firm. Over time PROFIT will work with lead firms to evolve these services into localised third party services that will form a network of commercial relationships and incentives to push and pull the rural bee keepers into continual innovation at the production level allowing them to contribute and benefit from a more competitive honey value chain.

ACTIVITIES

PROFIT has been in discussions with a number of players in the honey industry, in Kabompo, Mkushi, Kaoma and the Copperbelt, with a view to assessing the viability of interventions by the programme. However, fundamental marketing constraints affect many of these firms to the extent that their out grower schemes are barely functional and the producers more often than not depend on sporadic traders servicing the local market. With the current demise of North Western Bee Products in Kabompo, there is only one company that services a major export market and engages large numbers of small producers; Forest Fruits Ltd, based in Mwinilunga but also purchasing honey from Solwezi and Kabompo Districts. The company has over 5,000 registered producers, collecting honey from an area of 35,000 sq km of certified organic forest.

The North Western Province PROFIT team is working with Forest Fruits to provide and initial upgrading of the honey producers in hive management and quality assurance. Over time, this training will be backed up by the promotion of new hive technologies. Furthermore, the programme is helping the company to develop a database for all producers to improve information flow and forecasting for the company.

Another area in which PROFIT is assisting the industry is in the development of network of third party agents, incentivised by a commission on the production of the farmers under their influence, to improve the delivery and collection of inputs (namely the buckets used for harvesting), production extension and output aggregation activities.

By the end of the reporting period, the main honey harvest was well underway, and initial indications show that honey production could be 40% higher than last year.

CHALLENGES

- The sudden appreciation of the kwacha has had a serious effect on the honey export industry. Forest Fruits has reduced its farm gate price to the producers by 20% and was considering not purchasing honey this season. However, the importance of maintaining market share in a highly competitive global market place ultimately overrode issues of profitability. However, strategies aimed at productivity improvement and the provision of services through the firm, such

as plans to develop demonstration sites for the promotion of modern hives have been shelved until the situation stabilises.

- PROFIT's strategy of industry upgrading currently relies on one lead firm, and while the current hostile economic environment for exports remains, it seems unlikely that other companies will reach this level of market sophistication. PROFIT will continue to scan the market for other firms with the potential to upgrade to industry leadership.

ACTIVITIES PLANNED FOR NEXT QUARTER

- Investigate the honey industry in Kaoma in conjunction with the fledgling Honey Council. There is a regional history of honey production in the district and two expressions of interest in rehabilitating the previously parastatal honey production factory in Kaoma.
- Continue to work with Forest Fruits to develop their outgrower scheme, with an emphasis on establishing sites of learning for modern hive technology for the dissemination of information on modern bee management.
- Conduct a consultancy in conjunction with Forest Fruits into the development of high value honey products and markets such as propolis, and bioflavinoid testing to encourage Zambian producers to access higher value pharmaceutical markets.

THE TOURISM INDUSTRY

OVERVIEW

The main activity within the tourism sector was the finalisation of a major consultancy assessing the current status of Community Based Tourism in Zambia. While there is some understanding of the type and location of most of the tourist assets available, there is limited knowledge about the extent to which local communities are benefiting, the constraints to increased contribution and benefits, the commercial sustainability of the programmes currently operating, and potential opportunities based on scaling up already proven models. It is acknowledged that the tourism sector is disaggregated and largely disconnected, and by its very nature geographically scattered, so PROFIT interventions are over the course of the programme unlikely to affect significant numbers of communities. However, through this study, the largest of its kind attempted in the Zambian CBT sector, PROFIT attempted to identify currently existing models with a commercial orientation that could be replicated or scaled up with PROFIT assistance in the future.

The consultant travelled extensively within Western, Lusaka, Southern, Eastern and Central Provinces and interviewed a comprehensive list of stakeholders from the

private sector, the donor community and government, as well as the actual operators of CBT activities.

The final report will be issued early in the next quarter, along with a smaller paper outlining the basic findings and recommendations for the development of the sector as requested by the private sector.

Community Based Tourism in Zambia – a viable sector?

Community Based Tourism (CBT) is in its infancy but it is growing with tourism in general. There is more CBT than stakeholders are aware of but the income generated is extremely small. A few CBT projects have failed and many will struggle to be profitable resulting in disillusioned communities. The main reason for this is that much CBT has been inappropriately donor-driven not market-led. CBT has performed poorly due to multiple and conflicting objectives and vested interests, a lack of market research, weak linkages to the tourism industry, small marketing profile, low product quality and development levels in communities, internal community disputes and poor local governance, and a lack of information dissemination, coordination and planning and sharing of common lessons and good practice.

CBT has been most successful when it has been private sector driven ensuring commercial viability. Several tourism companies advise and promote highly successful CBT enterprises as a high proportion of tourists are interested in community and cultural activities. CBT is likely to remain an add-on product as Zambia is a relatively expensive destination. CBT that is commercially grounded has promising potential, but unless action is taken it is likely to be undermined by its weak legal status, lack of niche sector focus and tangible wider community benefit as this will deter the market (both tourists and potential investors).

CBT can work in Zambia but expectations of what, where and how it can deliver must be realistic. The Government needs to view CBT as a private sector activity in which it has a critical facilitation role to create an enabling environment. CBT works best when the wider destination is developing well and although the poverty impact maybe greater in remote areas, it is extremely difficult to develop CBT in less developed tourism areas.

CBT is likely to remain a marginal component of the tourism industry and a wider range of actions are needed to increase benefits to the poor from tourism in Zambia. These go well beyond promoting community tourism although work at the grassroots level to develop enterprises and local capacity is one key component.

ACTIVITIES PLANNED FOR NEXT QUARTER

- Issue of the final CBT report in full and abbreviated versions
- Launch of the PROFIT Innovation Grant Facility which will target promising CBT models

GRANTS MANAGEMENT UNIT

OVERVIEW

The approval of the Grants Manual by USAID in November allowed the processing of the initial sole-sourced priority grant to the Conservation Farming Unit (CFU) for activities in the cotton sector. Negotiations were finalised in December, awaiting the signing of the contract in January. Activities are expected to begin in January building up to a full scale effort towards the adoption of early land preparation among cotton farmers for the 2006-2007 agricultural season.

Towards the end of the quarter, discussions were held with the Agri-Business Forum (ABF) with a view to finalising a grant early in 2006 for the development of the outgrower industry, and initial discussions were held with the Zambia National Farmers Union (ZNFU) towards a grant for the expansion of services to the organisation's smallholder members related to the creation of market confidence and increased transparency at district level.

Discussions were also held with African Parks in relation to a grant towards the sustainable integration of the surrounding communities into the conservation and tourism programmes the organisation runs in and around Liuwa Plains National Park in Western Province. The grant would also be used to develop the livestock economy of the inhabitants of the park and its surrounds.

ACTIVITIES PLANNED FOR NEXT QUARTER

- Signing of contracts with CFU, ABF and ZNFU
- Further discussions will be held with the World Bank on the possibility of hosting the organisation's \$4m Market Improvement and Innovation Facility (MIIF) within the PROFIT Grant Management Unit.
- Solicitation for the first PROFIT Innovations Grant will be issued in February
- Solicitation for the award of the FY06 PEPFAR HIV/AIDS awareness campaign will start late next quarter.

MARKET SCANNING

OVERVIEW

The technical staff have currently narrowed and defined their market scanning activities into three major areas of maximum interest to the programme using PROFIT's industry analysis tools and selection criteria. Firstly the identification of livestock input and output operations is by no means complete, and neither is the identification of partners for the development of the rural retail and service sector. Thirdly, the field staff has been charged with the identification of interesting existing or potential models of contract farming or outgrower schemes requiring programme intervention for their conceptualisation or development.

ACTIVITIES

1) Horticulture. PROFIT continues to have a close relationship with Freshpikt, a consortium of Zimbabwean investors that has recently rehabilitated the former Zamhort food processing factory. The management project that in two years, 350-400t of fresh produce (tomato, sweet corn and beans initially) will be required per day to supply the factory, of which approximately 50% will be sourced from the smallholder sector. However, at this early stage in the development of the company, currently the production to service their core lines is coming from the commercial sector. PROFIT has been instrumental in assisting the company with a detailed feasibility study into the rehabilitation of their pineapple processing facility and the development of a contracted farming system involving small producers in Solwezi and Mwinilunga Districts. The report was positive in its outlook and as a result, Freshpikt will rehabilitate their plant during the first half of 2006 to enable a pilot procurement process during the June/July pineapple harvesting season.

The Potential for the Development of a Pineapple Outgrower Scheme in N W Province

Strengths:

- Considerable skill base among growers in Mwinilunga and Solwezi Districts
- Over 400 ha of crop currently in the ground
- Basic producer organisational structure and infrastructure that could be upgraded to facilitate the flow of information and the aggregation of product
- Current lack of market facilitates the entry of a new and guaranteed market
- Ideal agro-environment for the production of pineapples requiring few cash inputs and almost no chemical inputs
- Assured local, regional and international market providing correct price point is reached
- Strong processing and marketing facilities in Lusaka with impending HACCP accreditation
- Infrastructure improvements in the Province impending due to the economic activity at Lumwana East Copper Mine

Weaknesses

- Poor current yields (less than 5t/ha average) make per unit production costs relatively expensive. Farmers would need to double yields through improved management (weeding, replacing old plant stock etc) to make production cost effective
- Long distance between farm and processing plant requires the expensive transport of raw material including waste
- The current strength of the kwacha makes the export environment for such a price-sensitive commodity difficult and farm gate price low (\$0.04/kg is pegged at the lowest feasible farm gate price)

2) Paprika. PROFIT has been holding discussion with the (Zambia Agricultural Producers Syndicate (ZAMAG) involving assistance in the development of their outgrower scheme. The company recently took over the Enviro-Oil oleo-resin plant with the intention to add value to the primary production of paprika, and have a production base on commercial farms. Their intended expansion strategy, however, involves the contracting of smallholders beyond the current 600 farmers in Chongwe District. They are seeking programme assistance in developing a distributor-type model for the efficient distribution of inputs, dissemination of extension and credit recovery. However, the recent appreciation of the kwacha has put the expansion strategy on hold.

PROFIT is also working with a smaller ex-Zimbabwean company, Capsicum Ltd, who also have a production base on commercial farms but which is piloting a small outgrower scheme for smallholder farmers in Mkushi District. PROFIT has linked the company to an input supplier who is distributing inputs on the basis of a guaranteed market and sharing the credit risk with Capsicum Ltd. The programme has also organised twenty farmers around an agent structure to deal with the company and provide extension. The intention is to scale up activities next year if the model proves successful

3) Chillies. PROFIT has had a number of meetings with African Spices Ltd, a small company producing chilli products for the regional market and with a contract to supply raw material to the manufacturers of Tabasco products in USA. They are keen to expand their exported production; currently almost all produced internally, through an outgrower scheme and have asked for assistance in its design and implementation. They have a potential grower base close to their processing plant and are discussing the feasibility of creating a controlled irrigation facility managed by the company but leased to smallholders for chilli production in a similar concept to the Kaleya Smallholder Company's relationship with Zambia Sugar in Mazabuka.

4) Castor. PROFIT is assisting the Castor Company of Zambia develop a business plan around an improved oil expressing plant with a view to developing an outgrower base in North Western and Central Provinces

CROSS CUTTING ISSUES

Information and Communication Technology: PROFIT has signed a Memorandum of Understanding with the International Labour Organisation's Business Development Services Programme (ILO/BDS) with the intention to work together on ICT issues in particular the development of commercial mass media information services related to the commercially sustainable provision of agricultural marketing and extension information.

PROFIT is also working with the ZNFU and Savannacom, a private communications company, to pilot an SMS messaging service to its members. It is intended that these messages will carry information on inputs, markets and agronomical information. PROFIT will be supporting the costs of the pilot broadcasts while the ZNFU and the programme seek private sector sponsorship. When the concept of targeted broadcast SMS information is shown to be successful, it is intended that ZNFU, PROFIT and Savannacom will work towards the development of a commercially sustainable market information request service based on users dialling into the service.

HIV/AIDS: The PROFIT Project HIV/AIDS, sub-contracted to CHAMP, was initiated with the objective of increasing HIV awareness, with a particular emphasis on Abstinence and Being Faithful prevention activities in rural small-scale farming communities.

Due to delays in the obligation of PEPFAR funds during the month of September, CHAMP received an order to halt all activities at the end of September 2005. Communication allowing CHAMP to restart project activities was received on the 7th December 2005. The result of this is that no further activities took place regarding training of Peer Educators, and in establishing community HIV programmes during this period. Peer Educators who had been trained however continued to undertake sensitisation sessions, accounting for AB prevention sensitisation figures for the period.

Due to the CHAMP's inability to undertake review meetings with the PROFIT Peer Educators during a large portion of this quarter, the sensitisation numbers achieved by the Peer Educators will only be fully understood once review meetings are held during the next quarter. Review meetings to be held during the month of January 2006 will show the results of the PE activities during this time.

Despite the small amount of CHAMP activities during the reporting period, it is very positive that many of the PROFIT Peer Educators that have been trained have continued to undertake sensitisation programmes despite the lack of peer educator review meetings for almost three months. This indicates the sustainability of the project and the methodology that has been applied to the PROFIT project HIV component.

CHAMP has recorded that a total of 18,786 people (M=7,738, F=10,246) were sensitised by PROFIT Peer Educators during this period, however due to the break in project activities, CHAMP was unable to follow up on the activities undertaken by most of the Peer Educators for the majority of the quarter, and therefore verification of achievements related to AB sensitisation will be included in the next quarterly report.

| Targets | PROFIT target | Achievements for the reporting period | | | Cumulative results | | |
|--|---------------|---------------------------------------|--------|--------|--------------------|--------|--------|
| | | Male | Female | Total | Male | Female | Total |
| No of individuals reached with community outreach HIV/AIDS Prevention programmes that promote abstinence and/or being faithful | 150,000 | 7,738 | 10,246 | 18,786 | 13,829 | 28,053 | 41,016 |
| No of individuals trained to provide HIV/AIDS prevention programmes that promote abstinence and/or being faithful | 500 | 0 | | | 344 | | |
| No of community outreach HIV/AIDS Prevention programmes that promote abstinence and/or being faithful | 500 | 0 | | | 344 | | |

Despite the fact that the community Peer Educators received little support from CHAMP during this quarter, it is positive to note that many of the community peer educators continued to undertake sensitisation activities, showing the signs of sustainability.

Gender: In its cotton activities, PROFIT through the CFU will be prioritising the inclusion of women in its training activities.

There has been a very strong female presence at the community sensitisation stage of our preventative veterinary services programme (between 30 and 50% depending on region) particularly in Western Province where, through the traditional marriage system women own (but do not necessarily manage) large numbers of cattle. In this programme we are prioritising this sector of the cattle owning community.

PROFIT has a female member of staff working with Forest Fruits on helping to develop their outgrower scheme and streamline the downstream services from the company to the producers. She is working with women's' groups to improve the adoption of new honey producing technologies.

Finance: PROFIT funds a consultant to monitor the transactions under the warehouse receipt system covered under the Development Credit Authority. Due to uncertainties in the maize market and a scarcity of local maize due to a poor harvest, 2005 was a poor year for the warehouse receipt system, with very little crop placed in storage. Farmers who had the commodity had already sold earlier in the season to minimise their loss due to low yields and to take advantage of rapidly escalating prices soon after harvest. No new funds were advanced for any commodity in storage during the quarter. The only outstanding facility at the end of the year was under Finance Bank for the storage of groundnuts and the bank is now demanding repayment of the facility.

During the quarter, PROFIT conducted a consultancy to assess the financial services industry as it relates to industries selected by PROFIT. A consultant worked with the PROFIT team for a week in November, and interviewed leasing firms, banks, microfinance institutions and equipment suppliers to gain more insight into the possibilities that exist for improving access to finance for the participants of the value chains. The consultancy focused specifically on access to credit to finance small scale agricultural equipment as this is a constraint that will need to be addressed. This equipment is required to adopt more modern land management practices – minimum tillage, cultivation, irrigation, spraying – that will result in improved productivity and efficiency at the farm level.

Findings on the prospect of expanding leasing and financial services to smallholders

- **Leasing companies are interested in exploring new growth opportunities – with caveats.**

While leasing companies currently extend leases as low as K8m (\$2,400) these are almost always to existing clients. There is enthusiasm among institutions to expand this portfolio, but there remain the critical constraints of:

- Collateral
- Taxation policies in relation to VAT
- Limited availability of funding for medium- and long-term financing
- The absence of volume means high individual transaction costs

- **There is a limited choice of financial services in rural areas**

Only Finance Bank and the state-owned Natsave Bank have a significant rural network

- **Loans should not be discounted as a means to finance equipment**

With the current structure of most leases, loans often are more cost effective, with the only constraint being the availability of funding for a long term period.

- **Suppliers are able and willing to participate in the promotion of agricultural equipment**

Suppliers of affordable tillage machinery have promoted their technologies through field days and demonstrations with little effect. They express enthusiasm for working with the PROFIT programme where the promotion and possible financing activities will be focused along value chains where the potential for success is larger and more concentrated

COLLABORATION WITH OTHER ORGANISATIONS

C-SAFE: Both CLUSA and IDE as separate entities and the PROFIT programme as a whole are coordinating with Land o Lakes and C-SAFE in the execution of an OFDA disaster relief programme in Southern Province focused on providing developmental aid and market linkage to vulnerable groups assisted by food aid programmes. IDE and CLUSA will provide farmers with agricultural technologies such as Magoye rippers and Shaka hoes for improved tillage management and treadle pumps for the improvement of year round crop production and once the groups and farmers show commercial viability, PROFIT will incorporate them into value chain development particularly in relation to the cotton and livestock industries.

Export Board of Zambia: PROFIT attended an EBZ regional conference in Mongu in November aimed at sensitising the business community towards export opportunities.

MATEP: Regular meetings were held between PROFIT and MATEP on coordinating interventions with individual companies and industries.